



Congressman Jim Gerlach  
Chair, Manufacturing Working Group

Congresswoman Linda Sanchez  
Vice Chair, Manufacturing Working Group

Congressman Peter Roskam  
Member, Manufacturing Working Group

Dear Sirs and Madam:

It is my pleasure to provide perspective and recommendations on how to improve the tax code and incentives for U.S. manufacturers. The high U.S. corporate tax rate, administrative burden of tax compliance, and changing and uncertain tax environment make it difficult to compete with manufacturers in other countries. Many countries with which we compete enjoy significantly lower labor rates and tax rates, both major cost components for manufacturers. I applaud the House Ways and Means Committee for taking a look at ensuring U.S. manufacturers are able to compete both on the world market as well as at home where we compete with low cost imported products.

The following pages list the questions you posed and our answers. Please do not hesitate to contact me with any questions regarding my input. And thank you for the opportunity to participate in this process.

Sincerely,

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## **Bumble Bee Foods Response**

### **Manufacturing Tax Reform Working Group Questions**

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#### **Manufacturing Tax Incentives: A Tax Code to Increase U.S. Manufacturing**

**From the perspective of your industry/company, which provisions in the current Tax Code do you consider the most important to manufacturers?**

- For the manufacturing industry as a whole, we consider the Section 199 Domestic Production Activities deduction and the Section 41 Credit for Increasing Research Activities to be the most important to manufacturers. However, due to U.S. losses resulting partially from U.S. plant closure expenses and unfair pricing from foreign competitors, we have been unable to avail ourselves of these provisions.

**Of these tax provisions, in the context of comprehensive tax reform, which of these would you be willing to give up in return for a lower tax rate?**

- We would be willing to give up both the Section 199 Domestic Production Activities deduction and the Section 41 Credit for Increasing Research Activities for a lower tax rate. This trade-off would also reduce the significant administrative complexity and cost to compute the deduction and credit and compensate, somewhat, for the lower tax rates and much lower labor costs in other countries. We also recommend that comprehensive tax reform include the modification of the corporation alternative minimum tax to allow a 100% deduction of net operating losses.

#### **The U.S. Corporate Rate, Manufacturing Tax Incentives, and the Global Landscape**

**Are the tax incentives available to U.S. manufacturers similar to the tax incentives available to your international competitors? If not, please provide examples.**

- The tax incentives available to our international competitors are not the same as those available to U.S. manufacturers. For example, Malaysia, Philippines Singapore, Thailand, and Vietnam provide full or partial holidays from corporate income tax.

**In general, what impediments are there in the U.S. Tax Code that makes it difficult for American manufacturers to compete in a global marketplace?**

- Other than high U.S. corporate and individual tax rates, we are not aware that the U.S. Tax Code itself makes it difficult for American manufacturers to compete in a global marketplace. However, the U.S. Tax Code, its regulations and reporting requirements are extremely complex and burdensome, requiring very costly legal and accounting fees to comply with U.S. tax law.

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**Are companies at a competitive disadvantage due to the fact that the US currently has the highest statutory corporate tax rate of all OECD countries?**

- Absolutely. Effective April 2014 the United Kingdom tax rate drops to 21%. The effective combined Canadian federal and provincial tax rate for our sister company is only 26%. Compare this with the effective combined U.S. federal and California corporate income tax rate of nearly 41%.

**Would eliminating the tax expenditures listed in #1 and replacing such expenditures with a meaningful reduction in the statutory corporate tax rate help manufacturers to better compete domestically and/or internationally? What about for pass-through entities and smaller manufacturers if the individual marginal rate is reduced?**

- Absolutely. However, since manufacturing is capital intensive, the incentive must be there for investors to invest the capital and the manufacturing company to want to manufacture in the United States. Rate reductions applicable to manufacturing companies alone and not their U.S. and foreign investors would be an insufficient reason to invest in U.S. manufacturers.

#### **Improving the Tax Code for Manufacturers: Reforming Manufacturing Tax Incentives**

**Should any of the manufacturing tax provisions be modified to ease the administrative burden of compliance such as R&D? If so, how should such provisions be modified?**

- If the goal is to retain and attract U.S. manufacturing, tax policy must be long term to assure manufacturers that their long-term capital intensive investment will play out under the same assumptions as when the investment was made. Continuing retroactive reinstatement of expiring tax provisions, constant annual changes in tax law and the potential to increase tax rates in a short time span makes the U.S. an undesirable country in which to make a capital investment.
- If the federal tax rate is reduced to be competitive with other countries, then other provisions of the tax code such as the R&D credit, the deduction for domestic production and expensing of equipment become less important.

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### **Manufacturing Tax Reform Working Group Questions**

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**Can you discuss how your company relies on or takes advantage of certain cost recovery provisions in the tax code, such as accelerated depreciation? How do those recovery methods help manufacturers' cash flows? Do you think there are areas in the rules governing depreciation that should be evaluated or modified in tax reform?**

- The accelerated depreciation and expensing provisions related to depreciable assets are generally applicable to very small manufacturers providing them with a one-time boost in cash to afford the initial capital expenditure for those assets. Large manufacturers such as ourselves cannot expense equipment upfront and are required to use prescribed depreciation methods.

**How can the Tax Code better encourage manufacturers to innovate and develop new products here in the U.S.?**

- Manufacturers can be classified in two categories: high tech and mainstream. High tech manufacturers include electronics, pharmaceuticals, and other high value intellectual product companies. Many mainstream manufacturers, like the producers of food, are less reliant on the research credit, and thus indifferent as to developing products in one location or other. Therefore, a lower overall tax rate is preferential to encourage companies that employ large workforces, develop new products and manufacture mainstream products in the United States.

**Many of our global competitors utilize parent boxes or "innovation boxes" which essentially provide tax benefits for the commercialization of successful R&D. Do you believe implementing such a structure in the US would help manufacturers compete globally?**

- Implementing U.S. "innovation boxes" would subject total taxable income on successful R&D to a reduced U.S. corporate tax rate. However, unless by law the reduced rate was guaranteed for a period of time, corporations would be reluctant to use this facility. It would be administratively easier to adopt a sales apportionment method to allocate worldwide taxable income resulting from successful R&D to the U.S. as a measure of the income earned from exploiting the R&D in the U.S.

